MEMO

To: Idaho Water Resource Board Finance Committee
From: Brian W. Patton
Subject: Treasureton Irrigation Company request
Date: July 8, 2013

The Finance Committee is tasked with providing a recommendation for the full IWRB to consider with regard to the Treasureton Irrigation Company request for reimbursement of $23,620.

BACKGROUND
In 2009 the Bureau of Reclamation (BOR) awarded a series of 50% grants for canal improvement projects in the Bear River Basin in Idaho. Most of the canal companies then submitted loan requests to the IWRB to finance the remainder of the project costs. There were 8 canals filing loan requests totaling about $4 million. At the time the IWRB's Revolving Development Account had no available funds, and the BOR grants had a timeline for completion, so we proposed idea of issuing revenue bonds through the IWRB and loaning the proceeds to the various canal companies.

The canal companies appointed two local soil conservation districts representatives to act as their project managers. In discussing this situation with them, they encouraged us to move forward with providing financing to all the canal companies so they could complete the projects. As part of the bonding process, Local Improvement Districts (LIDs) needed to be created that overlaid the canal company boundaries to create a marketable credit in the financial markets. Since LIDs are created through the counties this brought in county commissioners and assessors into the project mix.

Four (4) canals went through the entire process of creating the LIDs and completing their projects. A 5th canal completed their project using the BOR grant without borrowing any funds. The bonds were issued at 5.95% with a 20-year term, and an interest rate reset at 10 years. The remaining canals dropped out the process. The projects generally consisted of replacing open canal with gravity-pressure pipeline.

TREASURETON IRRIGATION REQUEST
The Treasureton Irrigation Company, which was included in the revenue bond process as Franklin LID 2010-2, submitted a letter asking for reimbursement of $23,620 due to costs in the bond process and an interest rate difference for which they feel they should not be responsible.

STAFF ANALYSIS
As Staff and advisors have reviewed the bond process, all issuance costs were legitimate and necessary costs in the revenue bond issuance process. A summary of those issuance costs is attached for the 4 participants in the bond. The disagreement is with who should bear those costs, and what the canal companies feel they were told during the process. The Treasureton Irrigation letter asserts that an e-mail from Dan Nelson of staff made certain promises. Both the letter and Mr. Nelson's e-mail are attached for your review.

This was a very long and complicated process with multiple people involved beyond just the canal companies. We try to keep the Revolving Development Account loans very straightforward. Since many Revolving Account loans have been done in the Bear River Basin, the canal companies were probably expecting a process more like the Revolving Account loans, even though we tried to make sure the canal company representatives knew what the bond process would entail.

OPTIONS FOR THE IWRB FINANCE COMMITTEE TO CONSIDER

Treasureton has stated they want a reimbursement of $23,620. Some options the IWRB could consider are:

- **Do Nothing**. The project is financed, constructed, and in operation. In addition, **$270,000** in federal grant funds were provided to assist with project costs.

- **Reimburse $23,620 to Treasureton/Franklin LID No. 2.** The risk of this option is that other participants in the bond will likely want their share of the issuance costs reimbursed as well. This could even extend into other bond issuances. The IWRB policy has always been that the borrowers bear the issuance costs in bond issuances. In addition, $23,620 exceeds Treasureton/Franklin LID-2's actual issuance costs of **$8,381**, or $13,281 if their legal costs are included.

- **Issue a new Revolving Development Account loan to the Treasureton Irrigation Company, let them use the loan to pay off their share of the bonds and set the interest rate to recover an amount equal to their issuance costs.** At the present time there is $2.3M available in the Revolving Account for loans. While Treasureton/Franklin LID-2 is relatively small at $120,000, it's likely that the other participants would want the same arrangement. If all participants want the same arrangement in would increase the loan amounts to $2.1M. The loan interest rate would depend on the amount that the IWRB would intend to provide through an interest rate subsidy:

Current interest rate on bond	5.95%
Provide savings of $8,381 over 20 years (Treasureton's actual issuance costs)	5.45%
Provide savings of $13,281 over 20 years (Treasureton's actual issuance costs + LID legal fees)	5.1%
Provide savings of $23,620 over 20 years (Treasureton's request)	4.5%

A variation of this option is for the IWRB to buy back this share of the bond from DL Evans Bank so the IWRB is holding the debt and then could negotiate terms with Treasureton/Franklin LID-2.

Attachments:

- Letter from Treasureton Irrigation Company
- E-Mail from Dan Nelson
- Summary of issuance costs and sources and uses of funds for participants in the bond issue

RECEIVED
JUL 31 2012
DEPARTMENT OF
WATER RESOURCES

TREASURETON IRRIGATION
COMPANY

9479 N. Treasureton Road
Preston ID 83263

July 25, 2012

Idaho Water Resource Board

Re: Cottonwood Pipeline Project

Dear Board:

At the IDWR board meeting on July 20, 2012 we were asked by the board to write what we thought would be a fair resolution to our problem of finances concerning the bond issue process.

As we pointed out before, we were told in an email dated May 31, 2011 from Don Nelson, for $7,000 in closing costs we would receive a 4% loan. Prior to this we had been told the closing costs would be $5,000. We swallowed hard at the extra $2,000, but decided for the 4% loan, we would go ahead and pay the full $7,000 to get the cheaper money. We had already spent many hours and many thousand of dollars forming an LID and we did not want to waste this investment.

The end result absolutely shocked us. Closing costs were $13,653 instead of the $7,000 we anticipated. We were also forced to borrow $12,000 to put into a debt service reserve fund which we will be forced to pay interest on for 20 years. That interest alone will be over $14,000 based on a 5.95% interest rate. After all these fees for this low interest bond loan, we were still given a 5.95% loan. We had been told we would get a 4% interest rate loan.

Our payment should have been based on a $94,347 payoff amount to Ireland Bank plus $7,000 which equals $101,347 for 20 years at 4% with a payment of $7,457 yearly. In reality our payment now, based on all the added fees and higher interest is $ 94,347 Ireland Bank payoff, $13,653 closing costs, $12,000 reserve fund which results in a $120,000 loan at 5.95%. This payment will be $10,419. This is unless someone comes up with more fees. This yearly payment amount is $2,962 higher per year than it should be for the 20 year loan. Over the 20 year loan period the total cost is $59,240 more (20 x $2,962=$59,240).

If we still get our $12,000 reserve payment back, we would only loose $47,240. If the board would give us ½ of this $47,240 up front, which is $23,620, we would be happy.

Sincerely,

Brad P. Shumway, President
Treasureton Irrigation Company

Miles Geddes
Pipeline Project Manager

/js

From: Nelson, Dan
Sent: Tuesday, May 31, 2011 9:30 AM
To: Dettmer, Lyla - Preston, ID
Cc: Patton, Brian
Subject: RE: Franklin LID projects

Lyla,

As I said in my earlier email, we would be happy to process a Revolving Loan application and place it before the board. However, we would require that the LID be kept in place for the Loan. I cannot even assure you that Staff would give recommendation of approval or denial on this loan until the paperwork has been received. Once this Loan is put before the Board, your clients will have to be very convincing to get the Board to approve a Loan on these projects after they have already pulled out the Bond process. Therefore, regardless of which way you choose to go, there will still be the legal fees associated with the LID if you go with a Board Loan or Bond, and there is no guarantee that the Board will approve the loan.

Another is issue is that once they pull out of the Bond process, they won't be able to go back to the Bond if the Loan application is denied. In order to avoid delaying the other Bond applications, we will not allow your clients to delay the process. Therefore, we won't be able to place a Loan application before the Board until after the Bond applications have been placed before the Board. That being the case, there will be no way that your clients will be able to rejoin the Bond process once they opt out of the Bonding process.

If you can find a private company that would finance them, then you could go that route. I don't keep track of the private sector financial institutions, so I don't know if they would finance a project like this without the security of an LID. I also don't know what the interest rate would be for unsecured loan such as the one your folks are proposing. This is all information your clients will need to discuss with a private banking institution.

I just did some quick calculations, and on a 10 year loan for $100,000 at 5.5% interest the total interest paid would be approximately $32,668. The interest costs of a 10 year Bond for $100,000 at 4% interest would be approximately $23,290.95. That is a difference of approximately $9,377 over the ten year period. Minus the $7,000 in legal fees they are still approximately $2,377 ahead with the lower interest rate. I don't know what the interest rate is for the Bonds at this time, so you may want to contact Jim Wrigley to see what he thinks of the cost savings between a Loan and a Bond.

Lyla, the reality is that I cannot give your clients advice. I can only give out the facts I have described above. You are the representing your clients, not me. Therefore, you need to review the data and give that advice. I am not allowed to give my personal opinions on these issues, and wouldn't even if they let me. The reality is that your clients are not bound by the Bond, and can seek outside financing. The best deal available to the Board is the Bond process, so they may have to investigate the private sector. Either way works for us, and we wish them best in their search for the best deal.

However, they do need to be aware that we will not delay the other Bond applications to wait for them to make up their mind. This has been a long process, and we will not allow them to burden the other Bond applicants with additional delays. Once everyone is ready to go, they will need to be ready to move forward or opt out. It is not fair to the other applicants to be delayed even further due to your clients indecision.

Daniel A. Nelson
Staff Hydrologist
Planning Bureau
(208) 287-4856

Idaho Water Resources Board
Pooled Loan Program Revenue Bonds, Series 2011
Taxable
(Bear Basin LIDs Project)

Total Issue Sources And Uses

Dated 10/07/2011 | Delivered 10/07/2011

	Franklin LID 2010-2	Bear Lake LID 2010-1	Bear Lake LID 2010-2	Caribou LID 2010-1	Issue Summary
Sources Of Funds					
Par Amount of Bonds	**$120,000.00**	$778,000.00	$186,000.00	$1,097,000.00	$2,181,000.00
Total Sources	**$120,000.00**	$778,000.00	$186,000.00	$1,097,000.00	$2,181,000.00
Uses Of Funds					
Costs of Issuance:					
LID Bond Counsel [a]	**5,000.00**	5,000.00	5,000.00	5,000.00	20,000.00
IWRB Bond Costs of Issuance:					
Placement Agent Fee	**2,379.64**	15,428.01	3,688.45	21,753.90	43,250.00
Issuer Bank Fee	**1,200.00**	7,780.00	1,860.00	10,970.00	21,810.00
IWRB Bond Counsel	**1,650.62**	10,701.51	2,558.46	15,089.41	30,000.00
Trustee Fee (Initial)	**110.05**	713.43	170.56	1,005.96	2,000.00
Trustee Fee (one time annual fee charge)	**1,980.74**	12,841.82	3,070.15	18,107.29	36,000.00
IWRB Fee	**1,059.48**	6,869.02	1,642.21	9,685.49	19,256.20
Total IWRB Bond Costs of Issuance	**8,380.53**	54,333.79	12,989.83	76,612.05	152,316.20
Deposit to Debt Service Reserve Fund (DSRF) [b]	**12,000.00**	77,800.00	18,600.00	109,700.00	218,100.00
Payoff of Bank Loans Outstanding	**94,347.22**	640,529.95	148,573.32	904,890.57	1,788,341.06
Rounding Amount	**272.25**	336.26	836.85	797.38	2,242.74
Total Uses	**$120,000.00**	$778,000.00	$186,000.00	$1,097,000.00	$2,181,000.00

Percentage Allocation:					
Par Amount	**5.502%**	35.672%	8.528%	50.298%	100.000%
Total IWRB Bond Costs of Issuance	**5.502%**	35.672%	8.528%	50.298%	100.000%

(a) LID counsel fees negotiated by each district, individually.
(b) DSRF is separate fund established by bond document for use by trustee if required by bond default trigger. It is not available for any other use.
(c) Allocation based on individual par amount as percentage of total par.

Footnote:
Data conforms to Limited Offering Memorandum, Idaho Water Resource Board, Series 2011A bonds, pages 4 and 6.

PROVIDED FOR DISCUSSION PURPOSES

Wedbush Securities Inc.
Public Finance